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PRIVATBANK

Major change in geopolitics?

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US President-elect Joseph (“Joe”) Biden has sparked hopes of a change in geopolitical relations. But while we can expect to see a change in style, there is less hope of a change in the substance of America’s relationships with China and Russia. Put simply, there is too much at stake for the US in its rivalry with these two superpowers, which have both become more aggressive. As we are expecting America to show a more cooperative attitude to Europe, however, sentiment towards European equities looks set to improve.

The question many people are asking themselves as we approach the turn of the year is whether the arrival of the new US President will usher in a change in geopolitical relations. As geopolitical developments are an important part of the environment for financial markets, the answer to this question will be significant for 2021 and beyond.

With Joe Biden calling the shots as leader of the world’s key superpower for the next four years, we can certainly expect to see a change in style, whereas a change in the substance of the US’s geopolitical stance looks more doubtful. This would seem to apply to relations with the other key superpowers, namely China and Russia. After all, the Democratic Party and its supporters for the most part also hold a dim view of China’s more aggressive stance and its conduct in Hong Kong, particularly when it comes to human rights. Let’s not forget that it was a Democratic US President – Bill Clinton – who sent two US aircraft carriers to waters not far from the coast of China in 1996, after the latter had fired threatening rockets across the Gulf of Taiwan.

The rivalry between the US and China in the battle over mastery of key technologies, as well as in the conflict over military dominance, will persist even with a Democrat holding the keys to the White House. China’s military ambitions in the Asia-Pacific region, ranging from Taiwan to Singapore, are reminiscent of Japan’s aggressive policy stance in the same region from 1940 onward. As things stand, China has as many as 72 submarines equipped to

launch military attacks – compared to just 58 for the US and 50 for Russia. This enables China to keep the US Navy at a distance of approximately 1,500 kilometres from China’s coastline, which until very recently was quite unthinkable. Indeed, Chinese President Xi Jinping was recently quoted in Chinese media to the effect that the country should be prepared for the possibility of a major military clash. While a full-scale war is not imminent, such utterances nonetheless testify to the aggressive and expansionist nature of China’s current mindset – as does China’s continued occupation of the Paracel and Spratly Islands in the South China Sea, not far from Singapore and the Philippines.

“Closer cooperation with Europe can be expected from the new US President.”

G rard Piasko, Chief Investment Officer

The conclusion to be drawn from all this is that while the new US President is not about to impose a round of fresh tariffs on China, the geopolitical conflict between US and China will continue, including the battle over respecting intellectual copyright. Similarly, the general desire for less dependency on China when it comes to global value-creation chains encompasses not just US companies reliant on supply parts, but also their European counterparts. The repatriation of global production elements from China to Western and other nations could have the effect of slowing China’s potential growth. If this were to feed through into a rise in Chinese unemployment, China’s foreign policy could even become more aggressive as domestic problems increase for the ruling Communist Party.

With regard to Russia too, the start of Joe Biden’s tenure as US President is unlikely to trigger any significant easing of existing tensions. Sanctions against the Russians held responsible for eliminating opponents of the regime are perfectly conceivable, as is increasing conflict over Russia’s military influence in the Middle East and in Eastern Europe (Ukraine/Belarus).

By contrast, we can expect to see an improvement in geopolitical relations under the new US President in America's relationship with Europe, particularly the Eurozone. It is no surprise at all that Donald Trump's failure to regain the White House has been greeted with relief in Paris and Berlin in particular. The new US president is expected to not only re-commit to the Paris Climate Agreement, but also lay greater emphasis on the importance of transatlantic bonds of friendship – think NATO – as a way of sending a message to Moscow.

What conclusions can be drawn for investment policy from this possible change in geopolitical relations under the new US President? Firstly, European equities could

benefit from the improvement in sentiment in the form of larger capital flows from the US; from this standpoint we believe we are right to overweight the Eurozone for this asset class. And secondly, in view of the ongoing potential for conflict, gold remains an important medium-term portfolio component.

Gérard Piasko

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